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ANNUAL REPORT

YEAR ENDED DECEMBER 31, 1942



NATIONAL BISCUIT
COMPANY

NATIONAL BISCUIT COMPANY

449 West Fourteenth Street, New York

To the Stockholders:

Gross sales in 1942 were \$167,788,071 compared with \$119,599,610 in the year 1941.

Federal and Foreign Income and Excess Profits Taxes, after credit for post-war refund, amounted to \$13,856,884, an increase of \$5,545,245 as compared with 1941.

Earnings before Taxes were \$24,281,761, an increase of \$5,237,985 as compared with 1941.

Net income in 1942, after Taxes, was \$10,424,877 compared with \$10,732,137 in 1941.

Credits for United States and Canadian Excess Profits Taxes refundable after the war are indicated in the Income Statement, but, instead of being carried to Earned Surplus, have been transferred to a Post-War Contingent Reserve, as shown in the Balance Sheet.

Sales volume of our foreign subsidiaries exceeded that of 1941. Earnings

from such sales were 10% of the Company's total net earnings.

For comparative purposes we continue to include the earnings from operations of our foreign subsidiaries at the former par of exchange, but reduce them to the current rates through the Foreign Exchange Adjustment Account, so that the net results are finally included in the Consolidated Income Account in equivalent U. S. Dollars.

Foreign investments of the Company located in Canada and England are included in the Consolidated Balance Sheet and at the close of the year amounted to \$5,399,000. Operations in both countries were maintained throughout the year without serious interruptions. The Company continued its practice of withdrawing cash funds from these subsidiaries in amounts substantially equivalent to current earnings through permission granted by the fiscal authorities in both countries. In

the case of the English subsidiary, such earnings are after provision for contingencies amounting to \$171,143 for 1942.

We continue to produce special field rations and other foods for the armed services and lend-lease in ever increasing quantities. Contracts covering this type of production may be subject to renegotiation; however, the Company has not been advised that renegotiation will be required. In any event, it is believed that renegotiation would have no material effect, if any, upon the net earnings reported.

As stated in previous reports, the nature of our business is such that inventories, both Raw Materials and Finished Product, can little exceed current needs, and the Company does not enter into future commitments at any time in such amount as to affect its financial position materially.

The San Francisco Cracker and Candy building was remodeled during the year. In the half previously used for candy manufacture we have installed two modern plate ovens. These were greatly needed to take care of Government requirements on the West Coast as well as the greater demand for our products due to increased employ-

ment in that area. The candy equipment was moved to our Los Angeles Candy Plant, permitting a more efficient operation there.

Further modernization of building and equipment has been effected at the New York Bakeries. Four additional band ovens, two plate ovens and one 28-tray bake oven for Zwieback have been installed and placed in operation. The additional band ovens are the latest improved oven development in this field and have proved most satisfactory.

The additional equipment installed completes the modernization of the easterly half of our New York Plant between Ninth and Tenth Avenues. We have reconstructed what were four separate bakery buildings to produce one large modern double-tier bakery.

These four bakeries were originally constructed as separate units at various periods in the past. The equipment consisted of sixteen brick reel ovens and a Sugar Wafer Bakery. In 1935, we designed, constructed and installed our first band oven to determine under actual baking practice whether this type of modern equipment would prove practical. The operation of this equipment was satisfactory and we immediately started modernization of these

four baking units into one continuous building. This work has now been completed. The remodeled structure contains the latest type of baking equipment consisting of eight long band ovens, designed and constructed by the Company, two large plate ovens and one tray oven. The increased capacity gained by these changes is of great importance at this time. The entire New York Plant has 36 acres of floor space, and is by far the largest and most modern biscuit bakery in the world.

We, like most other manufacturers, have suffered from the shortage of certain raw materials. Some, such as those from the Far East, are not now obtainable in this country. The civilian use of others has been limited by the Government due to the needs of the war effort. In procuring and devising means of using substitutes, while maintaining production of a generally complete line of high quality merchandise, our Purchasing and Production Departments have done a splendid job. Similarly our delivery service has been restricted but our Sales and Distribution Departments have succeeded in keeping the trade well supplied in spite of a sharply increased demand.

The Company has moved its regis-

tered office in the State of New Jersey from Jersey City, where it had been from the time of its organization forty-five years ago, to Flemington in Hunterdon County. The Hudson County Board of Taxation, within whose jurisdiction Jersey City is located, announced during the summer that the intangible property, that is, investments, accounts receivable and bank accounts of all domestic corporations would henceforth be subject to tax at the full property tax rate as provided by law. In past years the practice of the taxing authorities had been to waive the tax on this type of property or to compromise it at a reasonably low figure. Most large corporations previously domiciled in Jersey City accordingly changed their legal residences prior to the date for assessment of 1943 taxes. We, along with many others similarly situated, chose Flemington because of its low tax rate.

The Consolidated Balance Sheet of the Company at December 31, 1942, and the Income and Surplus Account on the following pages, show the financial condition of the Company at the close of its 45th year.

Roy E. Tomlinson, President.

CONSOLIDATED

ASSETS

	December 31, 1942	December 31, 1941
Cash	\$15,290,626.29	\$19,622,218.66
U. S. Bonds and Tax Notes	14,697,500.00	11,257,500.00
(Quoted Market 12-31-42—\$14,773,667.19)		
Other Bonds	321,166.26	121,041.25
(Quoted Market 12-31-42—\$324,420.01)		
Note: \$514,000.00 Principal Amount U. S. and Other Bonds deposited for special reasons.		
Accounts Receivable	7,366,985.04	3,520,675.20
Raw Materials, Supplies and Finished Product . . .	19,565,430.96	14,306,298.91
(At Cost or Market, whichever is lower, less Special Inventory Reserve of \$1,019,381.51 charged to prior earnings.)		
Total Current Assets	\$57,241,708.55	\$48,827,734.02
Notes and Mortgages Receivable	165,720.72	184,931.43
Post-War Refund of Excess Profits Taxes	802,434.90	
(United States \$747,000.00; Canada \$55,434.90)		
Plants, Real Estate, Machinery, Intangibles, etc. . .	79,001,613.57	81,129,389.27
(At Cost in Cash or Capital Stock, Less Allowances for Depreciation.)		
Prepaid Expenses and Deferred Charges	901,590.06	807,960.56
Total	<u>\$138,113,067.80</u>	<u>\$130,950,015.28</u>

NOTE: See comments in President's report regarding
 (a) the Company's investments in and earnings of Subsidiaries in Canada and England.
 (b) the Company's contracts with U. S. Government.

BALANCE SHEET

LIABILITIES

	December 31, 1942	December 31, 1941
Accounts Payable	\$3,740,366.31	\$2,622,408.89
(Purchase Invoices, Pay Rolls and other Accruals not due for payment.)		
Common Dividend, Payable January 15, 1943 . . .	1,886,834.40	2,515,779.20
Reserve for Federal and Foreign Income and Excess Profits Taxes	15,962,691.01	9,593,426.09
Total Current Liabilities	<u>\$21,589,891.72</u>	<u>\$14,731,614.18</u>
Insurance and Contingent Reserve	8,014,793.57	7,822,298.35
Post-War Contingent Reserve	802,434.90	
Capital Stock, Preferred	24,804,500.00	24,804,500.00
(Par Value \$100.00—7% Cumulative) Shares authorized 250,000, issued 248,045		
Capital Stock, Common	62,894,480.00	62,894,480.00
(Par Value \$10.00) Shares authorized 12,000,000, issued 6,289,448		
Earned Surplus	10,350,954.07	11,041,109.21
Capital Surplus	9,656,013.54	9,656,013.54
Total	<u>\$138,113,067.80</u>	<u>\$130,950,015.28</u>

CONSOLIDATED INCOME AND EARNED SURPLUS
YEAR — 1942

Earnings for the year 1942:

From Operations	\$27,553,928.49
Other Income	<u>230,379.95</u>
Total	\$27,784,308.44

Less:

Depreciation	3,309,836.74
Provision for Federal and Foreign Income and Excess Profits Taxes (including \$7,470,000 Federal Excess Profits Tax) . . .	14,659,318.66
Foreign Exchange Adjustments	<u>192,710.78</u>
Earnings for the year before Tax Credits	9,622,442.26
Excess Profits Taxes in the United States and Canada Refundable After the War	<u>802,434.90</u>
Net Earnings for the Year	<u>10,424,877.16</u>

Less:

Write-down of Plants, Real Estate, Machinery, Intangibles, etc. Account, in addition to above depreciation allowance	400,000.00
Provision for Post-War Contingencies	<u>802,434.90</u>
Balance of Net Earnings credited to Surplus	9,222,442.26
Earned Surplus December 31, 1941	<u>11,041,109.21</u>
	20,263,551.47

Less:

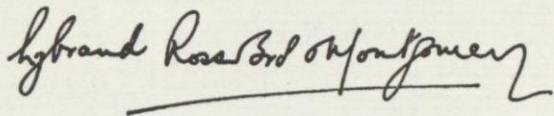
Preferred Dividends Paid	1,736,315.00
Common Dividends Paid	6,289,448.00
Common Dividend, Payable January 15, 1943 . . .	<u>1,886,834.40</u>
Earned Surplus December 31, 1942	<u>\$10,350,954.07</u>

REPORT OF AUDITORS

To the Stockholders of
NATIONAL BISCUIT COMPANY,
NEW YORK, N. Y.

We have examined the consolidated balance sheet of National Biscuit Company and its subsidiary companies as of December 31, 1942, and the consolidated statement of income and surplus for the fiscal year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related statement of income and surplus present fairly the consolidated position of National Biscuit Company and its subsidiary companies at December 31, 1942, and the consolidated results of their operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



New York, N. Y.

February 1, 1943

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GENERAL COUNSEL

GEORGE H. COPPERS

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